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SECOND CLASS

DRUG STORE NEWS

Vol. 11/No. 7 **Our 61st year of serving chains, wholesalers and high-volume independents** Published by Lebhar-Friedman Inc. April 3, 1989

Perry Drug on rebound, to remain 'independent'

DETROIT — Buoyed by a first-quarter earnings rebound, Perry Drug Stores chairman and chief executive Jack Robinson told shareholders here the company was on its way back, and he made a concerted effort to squelch recent Wall Street rumors about the possible sale of the chain.

"We are not aware of any specific reasons for the recent heavy stock activity," Robinson said. "Rumors are always out there, but we intend to remain an independent company."

In remarks at Perry's annual meeting March 17, Robinson volunteered a few possible explanations for the rapid rise in Perry's stock price in recent weeks. Among them, he said, were recognition by investors that the stock was undervalued; an earnings rebound after a two-year slide into red ink; and recent strong earnings performance within the chain drug store industry.

Stock speculation

"Often when a company experiences losses, but is otherwise fundamentally sound—as our company certainly is—there is much speculation about the stock," he said.

When one shareholder asked whether "any [merger] scenario is acceptable or negotiable" by Perry, Robinson did say that "any particular item brought to [the board's] attention is considered." However, he added, Perry has had "absolutely no" conversations with acquisition-minded suitors.

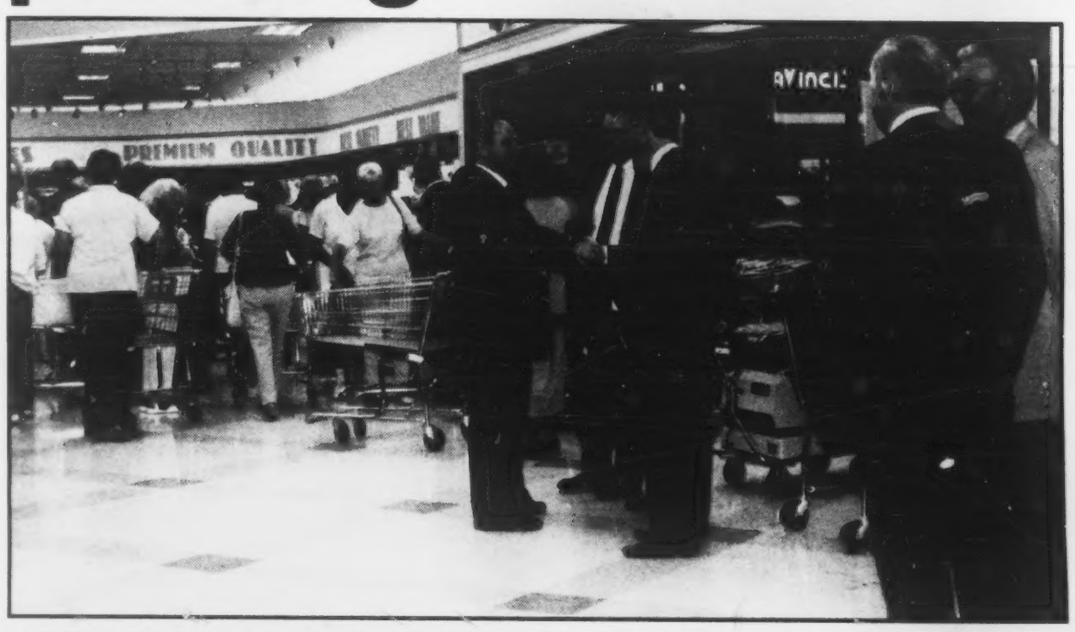
See **Perry** *page 41*

Jewel Osco dazzles Tampa with sparkling new format

By James Frederick

LARGO, Fla. — Five years in the making, the first prototype of American Stores' new Jewel Osco superstore opened with a bang here, drawing mobs of shoppers and prompting excited comments from company officials.

West of Tampa, in the most densely populated part of western Florida, the 75,000-square-foot Jewel Osco offers 80,000 SKUs of food, drug and general merchandise. It's opening marks a breakthrough for American Stores on several different levels.



Mark Skaggs (left), president of Jewel Osco, greets some American Stores top brass at prototype opening, including board member Leon Harmon and vice chairman Vic Lund. CEO Jonathan Scott was also present. At far right is board member Fenton Maynard, former president of Skaggs/Albertson's.

First, it heralds the company's re-entry into the Southeast after an absence of two decades. The chain will open two more of the giant combos this year in the Tampa Bay area, including a second unit tentatively set for a July 27 opening in North Pinellas, a suburb of Clearwater, and a third store in mid-November in New Port Richie, up the coast from Clearwater.

"We had no stores in the Southeast," said Mark Skaggs, president of the Florida division and son of American Stores founder and board chairman L.S. "Sam" Skaggs. "Florida is an area we were in before with Skaggs/Albertson's combos, before we dissolved that partnership, and we've always been looking to return. I think the state is ready for us."

Skaggs said in an interview with *Drug Store News* that the new Florida venture comprises "a major part of the expansion strategy" for American Stores.

Second, the opening culminates five years of planning and execution by an entirely new division of the company, Jewel Osco of Florida, to develop a combo store prototype specifically for the Florida market. Skaggs took over as

See **Jewel Osco** *page 41*

'Florida is an area we were in before. . . and we've always been looking to return. I think the state is ready for us.'

CVS promotes 13 top executives

WOONSOCKET, R.I. — If 13 is an unlucky number, don't tell CVS.

The fast-growing chain, with stores on both coasts, has just promoted 13 top executives. The rush of title changes reflects added responsibilities of veteran managers as the chain has doubled in size to 765 stores over the past five years.

"Many jobs are much bigger jobs than they were because our company has been growing," Gary Charboneau, executive vp-marketing, told *Drug Store News*. He was among those promoted, from the post of senior vp-marketing.

The promotions maintain CVS's three-tier structure of vp-level executives, and are "a recognition of the size of the contributions individuals have been making." They also "clarify" reporting responsibilities, which largely are staying in place, Charboneau explained.

Charboneau joins J. Kevin Hughes, executive vp-operations, and David Jonson, executive vp-administration on the highest tier reporting to CVS president Harvey Rosenthal.

Seven executives were promoted to senior vp from vp posts, and five became vp's for the first time. Senior vp's include: Thomas Ryan, pharmacy; John Furia, MIS; Ralph Weisgerber III, finance and control; Charles Hutchinson, human resources; Dennis McMullen, real estate; Robert Fiorelli, purchasing; Bradley Voelz, warehousing and distribution.

Vp's are: Shafi Shilad, pharmacy operations; Jack DeAlmo, operations services; Michael McGinn, controller; Bernard Cote, distribution operations, and Daniel Rogers, merchandise manager for H&BAs and CVS products.

LATE NEWS

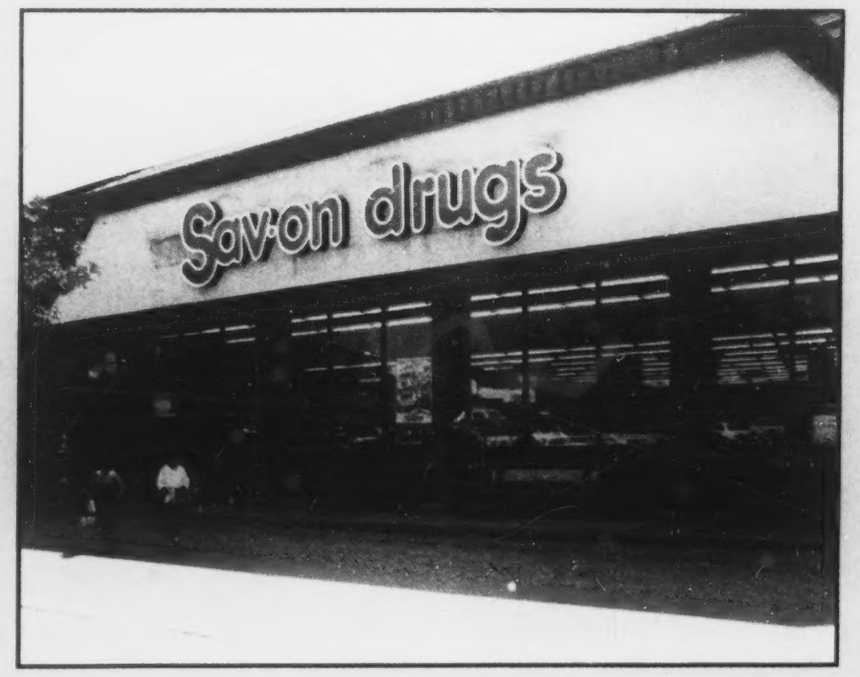
• RICHMOND, Va. — Standard Drug, which plans to open five or six stores this year, has recently opened its third store in a format that includes a special service area. Here, shoppers can mail packages, buy stamps, money orders and lottery tickets, tickets for sports events and local entertainment.

• AKRON, Ohio — Revco D.S. has won approval by the U.S. Bankruptcy Court here to reassign and reject all outstanding lease contracts on abandoned store sites. The court ruled in mid-March that Revco was free under bankruptcy rules to disavow old lease obligations on 98 empty sites, and to sell its lease contracts on 14 other sites to various bidders.

• NEW BRITAIN, Conn. — Moore Medical tallied a $6.1 million loss for its fiscal year ended Dec. 31, triggered by an $8 million fourth quarter loss, which included a $12.4 million non-recurring charge. The wholesaler had earned $4.1 million in fiscal 1987, and $709,000 in that year's final quarter. Sales in 1988 were $229.1 million, compared with $232.2 million last year.

Sav-on is back

Thus proclaimed a sign outside one former Sav-on Osco store in the Los Angeles area recently. After trying to build a nationwide identification under the Osco name for several years, American Drug Stores is now going back to the well-recognized Sav-on logo at approximately 175 stores on the West Coast. The official grand reopening for all locations will occur this month, but the Sav-on name began to banner some stores, such as this Burbank, Calif. site, in February.



NEWS IN BRIEF

Walgreens to grow in New England

DEERFIELD, Ill. — Walgreens is gearing up for additional expansion in New England, three years after its first major entry here when it bought 66 Medi Mart sites. The chain plans to open six stores in Massachusetts and Rhode Island in 1989, said Theodore A. Ballent, newly appointed senior real estate manager for the 1,444-store chain.

Locations for the six new stores include Brockton, Peabody and Newton, Mass. Ballent's territory also includes the Boston area, New Hampshire and Rhode Island. Responsible for site selection, real estate negotiation and lease renewal, Ballent said that another eight sites are scheduled to open in his territory next year.

O'Neill tabbed for Revco in South

TWINSBURG, Ohio — Michael O'Neill was promoted to regional vp of Revco's Southern region, which includes approximately 400 Revco drug stores in Alabama, Arkansas, Florida, Georgia, Louisiana, southwestern South Carolina and western Tennessee.

O'Neill was most recently regional director of operations in the above regions. He succeeds Bill Gillota, who has left Revco to pursue other business interests. A replacement for O'Neill's former post as regional director of operations has not yet been named.

Longs sells shares to employee plan

WALNUT CREEK, Calif. — Longs Drug Stores recently sold 696,864 shares of its common stock to its employee stock ownership plan (ESOP).

Robert Long, president and ceo, announced that ESOP now owns 14.3 percent of Longs' outstanding shares. Voting rights and certain disposition rights for the shares in ESOP are passed through to partcipants. He said, "The sale of these additional shares to the ESOP gives Longs' employees a very significant interest in both the business and governance of the company."

Coyle named Peoples' ad veep

ALEXANDRIA, Va. — James W. Coyle was recently promoted to the title of vp-advertising of Peoples Drug Stores. He will now be responsible for all of the chain's advertising programs. Coyle joined the company in 1984 as director of advertising, and has more than 20 years experience in the advertising field prior to his career with Peoples.

Kinney mini planned for med building

GOUVERNEUR, N.Y. — *Drug Store News* has learned that Kinney Drugs will open a "mini-store" in a medical building on May 1. John Burgess, president of the 30-store chain, said the medical building in Watertown, N.Y., houses a surgical suite and 15 to 18 doctors' offices.

The proposed 12,000-square-foot store will be the second Kinney will operate out of a medical building. It currently operates a pharmacy in a medical building in Burlington, Vt.; Burgess said the Watertown store will also sell greeting cards and OTC items.

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PICTURES IN THE NEWS

Southern franchising targeted as Super D regains momentum

By Susan Ball

MEMPHIS — After a management buyout last fall slowed its momentum, Super D is coming up to speed on a three-pronged growth trajectory.

Franchising will be the pharmacy-oriented chain's major thrust, Don Lasseter, chairman and ceo, told *Drug Store News*, with 10 to 15 franchise stores targeted per year. The franchises will mainly fill voids in Super D's local and Jackson, Miss. markets, and in rural mid-South areas, he said.

The chain plans to add three more franchise stores to its current 14 by April 30, said Ron Lewis, vp-franchising.

Further down the road, Super D hopes to accelerate franchise growth to 20 to 25 yearly, the aggressive pace envisioned in 1987, when Lewis began revitalizing the program under former parent Malone & Hyde. However, "We want to service the ones we have fully" before hitting that stride, he added.

Two other growth routes the chain will pursue include opening three to five new company stores per year (either Super Ds or Petty division units), and a stronger focus on Ike's, its deep discount arm, Lasseter said. Three Ike's, all with pharmacy, are projected to open over the next 12 to 18 months, including the conversion of a midtown Memphis Super D store in April and an Ike's in Little Rock, Ark., in August.

Other states eyed

Lewis said management will look to other states soon for franchise opportunities, possibly in Kentucky and Arkansas, and plans to expand the concept to Consumers Drug, the chain's apothecary-type stores, which had been put on hold during the LBO, will be implemented "in the near future."

"We had to scale back because of the LBO," Lewis said. "We could assist more with franchise financing before the buyout," because of Malone & Hyde's financing resources.

Super D, about 85 percent of whose store managers are pharmacists, recruits franchisees from among independents and existing store personnel. It looks for operating expertise, a person who wants to grow, financial stability and someone who wants to promote and follow Super D's program.

"We'll encourage store managers, help them get a franchise and secure location and financing," Lasseter said. "And we provide buying clout and advertising."

The franchise program also includes merchandising and accounting services, in addition to the red, gray and black decor identity and general corporate-store format. Franchisees pay no up-front fee; instead, they pay a 3-percent royalty and a 1½-percent advertising fee.

On average, Super D franchise store sales increase 30 percent the first year. But pharmacist Atkins Carter, who recently moved from old quarters into a newly constructed, 5,400-square-foot store within the same strip center here, said he has achieved sales approaching $2 million, a 40-percent increase, in his first year as a franchisee. (He joined in March 1988.)

Lasseter, himself a pharmacist, noted that the chain has one of the highest prescription to total sales ratios (55-percent scripts) in the industry.

Marking recent opening of Super D's top-volume franchise store, relocated to a new building within the same Memphis shopping center, are, from left: Kristin Frohn, director of real estate and development; Don Lasseter, chairman and ceo; Katrina Carter, store employee; pharmacist-franchisee Atkins Carter; Ron Lewis, vp-franchising; and Rusty McCruder, who works with Lewis.

Super D's revamped cosmetics department, given extra glitz via mirrored pegboard, is showcased on a front corner of franchise store's new quarters in Memphis.

Pharmacy department's prominent back-wall position and bold signage leave customers no doubt that this is a pharmacy-oriented chain.

Newly opened Super D franchise store, relocated to a new building in same Memphis shopping center, has a mailing outlet, which franchisee says has boosted card sales.

SPECIAL SAMI REPORT

H&BA product categories highly competitive

Twice each year SAMI produces a series of reports identifying all brands with a million or more dollars in categories tracked by SAMI. In the case of health and beauty aids, separate reports are issued for food and drug stores. My summary in this issue is based on the H&BA million-dollar brands during the year ended Dec. 30, 1988.

One feature of these SAMI corporate development studies is the listing of the dates since Jan. 1, 1970 when these million-dollar brands were introduced. In the following analysis, we are focusing only on H&BA brands launched during the 1980s. Since the SAMI drug store service has not been in existence over the course of the entire decade, we are using the first appearance dates in food stores to trace brand origin histories.

SAMI million dollar annual report
Health and beauty aids national survey

(Year ended Dec. 30, 1988)

Product Group	No. of brands in drug stores	No. of brands in drug stores introduced in '80s	% introduced in '80s	No. of brands in food stores	No. of brands in food stores introduced in '80s	% introduced in '80s
Baby needs	21	3	14.3	15	1	6.7
Deodorants	75	22	29.3	68	21	30.9
First aid	40	13	32.5	28	8	28.6
Hair care needs	220	93	42.3	175	81	46.3
Oral hygiene	86	32	37.2	67	31	46.3
Proprietary remedies	304	102	33.6	206	56	27.2
Shaving needs	51	8	15.7	45	7	15.6
Skin care aids	128	40	31.3	71	19	26.8
Total all product groups combined	925	313	33.8	675	224	33.2

Source: SAMI

In all 52 H&BA categories, there were 925 million-dollar brands in drug stores, 250 more than in food stores. Three hundred and thirteen of the drug store "millionaire" brands, or 33.8 percent, first appeared during the '80s. For food stores the number is 224, or 33.2 percent. Thus, while food stores have had fewer high-volume H&BA brands than drug stores overall and fewer new million-dollar brands introduced in the '80s, the new product share level is nearly identical in both types of retail outlets.

PRODUCT TRACKING

ALAN MILLER

In both food and drug stores, the highest levels of new brand introductions of the '80s are found in the hair care and oral hygiene sections. For food stores, new brands comprise 46.3 percent of the total of million-dollar brands in both hair care and oral hygiene. In drug stores, on the other hands, 42.3 percent of the million-dollar hair care brands first saw the light of day in the 80s, while only 37.2 percent of the oral hygiene brands total were of such recent vintage.

For the proprietary remedy categories there were 304 million-dollar brands in drug stores, nearly 100 more than the 206 in food stores. In both outlets, the lowest new product activity was found among baby needs and shaving needs. Less than 20 percent of the million-dollar brands in these two product groups were spawned during the 1980s.

Drug stores have also outshone food stores in million-dollar skin care products. Of the 128 million-dollar skin care brands in drug stores, 40, or 31.3 percent, first appeared in one or more SAMI markets in the '80s. In food stores there were only 71 million-dollar brands in the product group, and only 19, or 26.8 percent, were launched in the '80s.

There were 15 H&BA product categories with no million-dollar brand introductions during the '80s in food stores and 12 with no million-dollar new brands in drug stores. The three categories in which there were new drug store million-dollar launchings but none in food stores were nursing supplies, sleeping aids and after-shave lotions.

Of the 52 H&BA categories tracked by SAMI, 16 had at least 25 million-dollar brands in drug stores, topped by shampoo (52), cold remedies (45), hair coloring (42), hair conditioning rinses (40) and hand and body creams/lotions (39). In food stores, there were only seven product categories with as many as 25 million-dollar brands. Shampoo also topped the list with 45, followed by cold remedies (35), hair conditioning rinses and internal analgesics (each with 34) and hair spray (33).

In drug stores the highest number of new brands of the '80s were in the following categories: hair spray (20), hair setting needs (19) and toothpaste & powder (19). These categories were also the scene of important new brands in food stores: shampoo and toothpaste & powder (20 each), hair setting needs (19) and hair spray (18).

There are five important product categories in which there is a significantly higher incidence of million-dollar brands in drug stores as compared to food stores: hair coloring (42 vs. 15), denture adhesives (14 vs. six), natural vitamins, minerals, supplements (25 vs. eight), after-shave lotions (15 vs. six) and cosmetic and medicated skin aids (38 vs. 18).

The relationship in high-volume brands available to consumers is closer between outlets among: baby oils, cream & lotions (eight in drug stores vs. seven in food stores), spray deodorants (16 vs. 15), roll-on deodorants (15 vs. 16), stick deodorants and pads (21 vs. 19), hair spray (36 vs. 33), hair setting needs (23 vs. 24), hair dressing needs (20 vs. 19), toothpaste & powder (31 vs. 32), external analgesics (11 vs. 12), shaving creams (nine in each outlet) and razor blades (20 vs. 24).

While there are only two H&BA brands of the '80s which have reached the $50 million level in drug stores (Advil and Alcon), there are five such brands with more than $50 million in annual food store sales. In the forefront are Advil, Crest Tartar Control, Colgate Tartar Control, Plax Mouthwash and Nuprin analgesic.

What do all these numbers signify? One thing that rings loud and clear is that there is more competition overall among H&BA categories than in most food categories, whether shelf-stable, frozen or refrigerated. There is also more new product churning in the H&BA sector. A third observation is that while consumers are apt to select drug stores for their health needs, they are content to fill their beauty aids needs while shopping for groceries.

Readers wishing to secure information on subscribing to the H&BA SAMI Million-Dollar Brand Report service can contact Warren Spence, vp-H&BA Marketing, SAMI, 55 Greens Farms Road, Westport, Conn. 06880; (203) 222-5721.

* * *

Note: A belated apology to the folks at White Laboratories for an erroneous statement a while back that Soft Shave is a brand under the Block Drug banner. X-14 Mildew Remover was sold to Block Drug by White Labs, but Soft Shave and Soft Shaver products remain White Laboratories trademarks.

Alan Miller is a consultant to SAMI, Inc. and former vp of sales service at Selling Areas Marketing, Inc.

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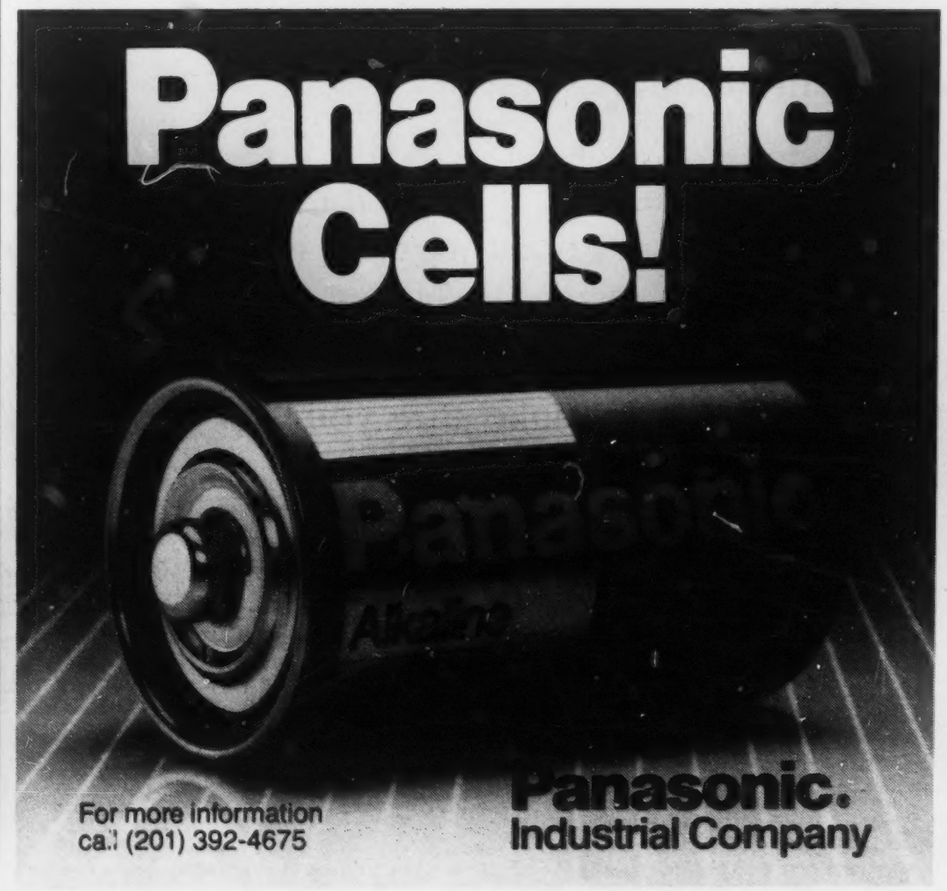

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BEAUTY TRENDS

SPAR audits chains' yule fragrance sales

Early reports on Christmas 1988 fragrance sales suggested that chain drug stores were having a stronger sales year than what eventually turned out to be the case.

Once all the figures were in, it turned out that most of the major chains showed flat to negative trends in fragrance last year, and Nielsen Marketing Services reports that fragrance sales in chain drug stores were down 3 percent in dollars and 5 percent in units for the past Christmas season.

This year, buyers say the problems were not caused by any lack of new product launches. There were nine major launches in mass fragrances this year, and three turned out to be very successful: Ex Cla Ma Tion! and Trouble were very strong new launches in mass women's scents, and Hero was an outstanding launch in men's.

Almost all buyers confirmed that sales of new brands did not create new growth for the category. Instead, they basically cannibalized sales from the more established and traditional mass brands.

Today, as buyers and manufacturers try to evaluate what happened this past Christmas, they come to two fairly definite conclusions. Many buyers blame manufacturers for not doing enough to increase the consumption or usage of fragrances, and many buyers, as well as manufacturers, also feel there is not enough creative merchandising at store level to generate incremental sales, and by this they mean there is not enough service in the stores, there are too many small or lesser brands taking space away from dominant brands and lessening their impact on the shelf, and there is way too much merchandising of fragrances under glass.

Many retailers feel strongly that most manufacturers are only committed to building their own brands and are neglecting what has to be done to strengthen the fragrance category as a whole.

Manufacturers should encourage usage

One buyer said that what the industry needs are ad campaigns that address the issue of usage.

"The manufacturers are just interested in stealing market share," said this

Continued on page 13

Some drug chains are upgrading their cosmetics/fragrance presentations. They are boutiquing their departments to create an upscale image and investing in cosmeticians who are trained to build sales of higher ticket fragrances through product recommendations.

How chain drug stores merchandised fragrances at Christmas

(Changes in space allocations)

Xmas '87 average size of drug store fragrance department (linear ft.)	160.9
Percentage change over regular everyday space in 1987	79%
Xmas '88 average size of drug store fragrance department (linear ft.)	191.3
Percentage change over regular everyday space in 1988	90%
Percentage change in the size of the fragrance department Christmas '86 vs. Christmas '87	19%

Source: *Drug Store News*/SPAR Marketing Services

Methodology of the SPAR audit

This is the second year that *Drug Store News* has sponsored a store audit of how chain drug stores merchandised fragrances at Christmas. Findings of this study can be used to help retailers identify opportunities to expand sales and spot trends that may be impeding the segment's growth.

This exclusive study was conducted by Minnesota-based SPAR Marketing Services. On Dec. 1, 1988, at our request, SPAR audited the fragrance departments of 392 chain drug stores in 20 major markets. They measured actual space for fragrances, and then broke their measurements down into averages by category segment, select brands, and chains.

The stories and charts published here are based on that audit, and should give readers an accurate picture of how well fragrances were merchandised. This section includes:

- The size of the fragrance department in the average chain drug store at Christmas;
- How much additional space was devoted to fragrances at Christmas for promotional displays;
- How effectively chains use ends, counters, islands, POP and other promotional vehicles to hype fragrance sales;
- How much space was given to merchandising fragrances under glass;
- How much space was given to gift sets;
- When the average chain got its Christmas displays out on the floor; and
- How well select brands performed.

We want to thank SPAR, and particularly Jan Strunk and her staff, for their help in making this audit possible.

We also want to thank the retailers and manufacturers who spoke with us about our findings and helped us put the information into a meaningful context.

Retailers use variety of merchandising approaches during key selling season

Page 18

SPAR/*Drug Store News* fragrance audit

BEAUTY TRENDS

The weeks the average chain drug store began displaying Christmas fragrances

Week in which Xmas displays went up	% of stores with displays up at this time	
	1987	1988
Oct. 30	34.1%	12.3%
Nov. 6	72.5	24.6
Nov. 13	87.5	62.2
Nov. 20	100.0	77.7
Nov. 27	100.0	87.9

Source: Drug Store News/SPAR Marketing Services

Continued from page 11

source. "No one is trying to get the usage rate up. There's a whole group of consumers who don't know anything about fragrances, and no one's even talking to this group about such things as layering or using both night fragrances and daytime fragrances."

However, sources on both the retailing and manufacturing side also felt that chain drug stores were themselves adding to the problem by failing to merchandise fragrances effectively.

There seemed to be enough space devoted to the category this year to make a good impression, our sources said, but there were definite weaknesses in how that space was used to build business.

Many of our sources said they were "alarmed" at the merchandising trends they saw emerging from our exclusive audit of how 392 chain drug stores actually merchandised fragrances last Christmas.

There seemed to be enough space devoted to the category this year to make a good impression, our sources said, but there were definite weaknesses in how that space was used to build businesses.

For one thing, most chain drug stores were very late this year putting up their fragrance displays. For Christmas 1987, all the chains in our survey had their displays up by Nov. 20. This year, 77 percent of all chains had their displays up that early, and just 88 percent had them up by Nov. 27.

All our sources agreed this trend had to have a negative impact on sales, but some sources felt that the strategy was justified. "If we put the gift sets up early, they will not sell," said the cosmetics merchandise manager for a major chain.

However, other sources said that this kind of thinking is part of the reason why fragrances lately have been consistently disappointing performers for chains at Christmas.

"We cut back on the category. We get the displays up later. We put more and more of the category under glass where no one can get at it, and then we complain that it doesn't sell. Well, how can it sell when customers can't get at it?" said one buyer. He added that proper merchandising of fragrances was becoming "a lost art" in most chain drug stores.

Under glass, fragrances lose impulse sales

Another source said that his ideal was to get 75 percent of all the Christmas product out by Nov. 1 and to have it all up by Thanksgiving. "That way if there's a blizzard ten days before Christmas, we don't get massacred," he said.

Both retailers and manufacturers were also alarmed by how much fragrance this day is going under glass. Our audit clearly shows that more stores are putting both men's and women's fragrances under glass, and it doesn't seem to matter anymore whether a brand is expensive or not. If the store is in a neighborhood that is considered a security risk, where pilferage is high, then chains are automatically putting all fragrances, even low priced alternative designer brands like Primo or Scentsational, under glass.

"Our only other option," said one source, "is to put more clerks in to service the department, but in today's economic world, not many chains can do that."

Even chains emphasizing strong service in their cosmetic departments said they weren't happy with the option of going under glass. They simply felt it was unavoidable and they were depending on their cosmeticians to minimize lost sales opportunities.

Not a good trend at all, our sources concluded, but they were also unanimous in their opinion that this particular trend is inevitable and the feeling is that more and more chain drug stores will have to resort to merchandising fragrances under glass as time goes on.

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BEAUTY TRENDS | SPAR/*Drug Store News* fragrance audit

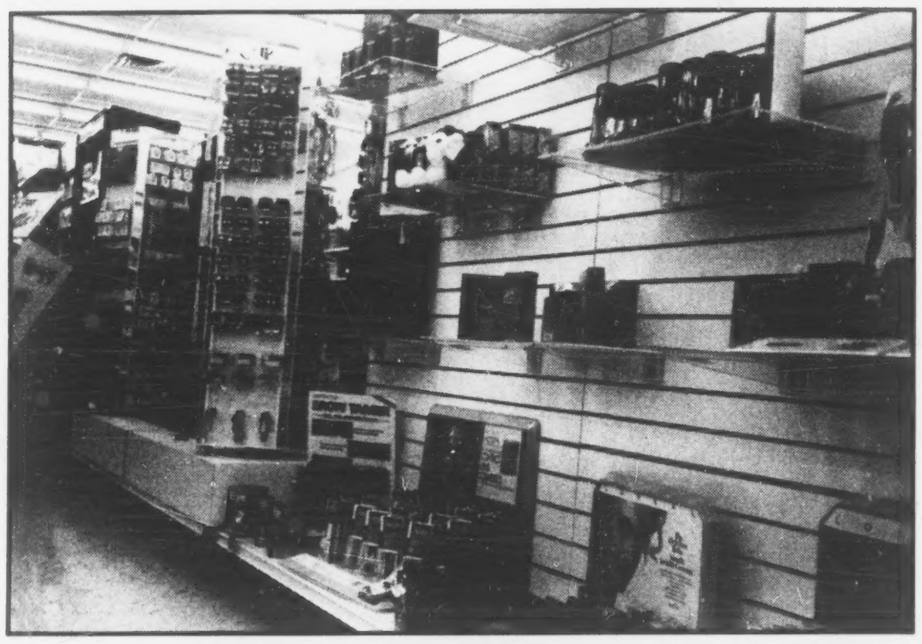
Highlights of *DrSN's*/SPAR's Christmas fragrance audit

Highlights of the *Drug Store News*/SPAR Christmas Fragrance audit include the following:

- At Christmas 1988 the average chain drug store gave the fragrance category 19 percent more display space than it was given at Christmas 1987. Buyers say that, for the most part, they took the space from color cosmetics.
- Xia Xiang was given the highest increase in extra display space for women's fragrances.
- Among stores that carried the brand, display space for Deborah's ScentSational Scents increased 263 percent this year over everyday allocations.

Its distribution, however, was limited. Space for Primo, which was sold in 89 percent of stores, went up 210 percent vs. its pre-Christmas space.

- Two new women's brands, Illegale and Ex Cla Ma Tion!, were given much higher visibility at Christmas, up 191 percent and 186 percent respectively over pre-Christmas space allocations, but Almay, also a new brand, was only increased 85 percent over every day allocations.
- In men's fragrances, the strongest space allocation increases went to three new brands, Mexacali, Hero, and last year's Sante Fe. Stetson and Old Spice also got more space.
- In women's fragrances, established brands like Chantilly, Le Jardin, Vanderbilt and Charlie were given the highest shares of space among the brands we measured. However, in each case their shares were slightly down from last year, an indication that retailers are taking space away from traditional brands to make room for newcomers like Ex Cla Ma Tion! and Trouble.
- Xia Xiang, which had the strongest launch of any mass women's brand in 1987, had the biggest share gain this year, up 122 percent to a 2.0 share.
- In men's fragrances, the established brands like Stetson, Old Spice, English Leather and Chaps, were given the highest shares of space among the brands we measured. However, in the case of the leading men's brands, their shares overall were slightly up from last year. Iron and Night Spice had the biggest share gains this year, up 32 percent and 31 percent respectively over Christmas 1987.
- For both Christmas 1988 and 1987, free-standing or island displays were the most popular ways to merchandise women's fragrances. However, this year more than half of all stores also gave the women's brands expanded shelf space.
- For both Christmas 1988 and 1987, free-standing or island displays were popular ways to merchandise women's fragrances. This year more stores gave men's brands expanded shelf space and counter space.
- Even though most drug store retailers hate to risk losing impulse sales by putting fragrances under glass, more stores did do that this year. A third more stores had Xia Xiang under glass this year, and 20 percent more even put Deborah's alternative scents under glass.
- In men's the same trend occurred; again more stores put the brands we measured under glass. Only Old Spice was an exception, with 18 percent fewer stores displaying it under glass for Christmas 1988.
- Ex Cla Ma Tion! was the most productive women's brand of all measured at Christmas 1988. An index of 100 indicates that the ratio of sales to space is equal and that the brand is generating the dollar volume that justifies its space allocation. Ex Cla Ma Tion! had an outstanding ratio of 161.3, indicating that it was generating enormous turns for the space devoted to it. Charlie, Vanderbilt, Forever Krystle and Jontue were also way above average in efficiency.
- In men's fragrances, there was no success as dramatic as Ex Cla Ma Tion!'s, but Chaps, Jovan Musk, Old Spice and English Leather were all superior in efficiency.
- This year, it took much longer for chain drug stores to set up their Christmas fragrance displays. Last year, all the stores in our survey had their displays up by the week of Nov. 20. This year, just 78 percent of all stores had the displays up that early. By the week of Nov. 27, just 88 percent of all stores had their displays up. One buyer said it is ideal to have 75 percent of all displays up by Nov. 1 and 100 percent by Thanksgiving.



Drug chains are inconsistent in their use of POP to support fragrance merchandising. As the above photo illustrates, some brands are displayed with POP intact while others aren't. Overcrowding often forces store managers to discard POP aids like header cards, but the consensus among merchants is that such decisions have a negative impact on overall sales.

Indications are that retailers are taking space away from traditional brands to make room for newcomers like Ex Cla Ma Tion! and Trouble.

How effectively chain drug stores use POP at Christmas

(Percentage of stores with at least one fragrance display supported with POP)

Chains	All women's brands surveyed '87	All women's brands surveyed '88	All men's brands surveyed '87	All men's brands surveyed '88
Thrifty Drug (Los Angeles)	45.0%	73.9%	47.4%	61.9%
Pay Less NW (K mart, Wilsonville, Ore.)	75.0	66.7	75.0	66.7
CVS (Woonsocket, R.I.)	44.4	69.6	38.5	60.0
Walgreens (Chicago)	41.5	57.1	38.6	54.8
Longs Drug (Walnut Creek, Calif.)	54.5	56.3	36.4	41.2
All stores	42.9	57.0	38.0	52.9
Eckerd Drug (Clearwater, Fla.)	61.9	40.0	52.4	50.0
Revco (Twinsburg, Ohio)	41.2	40.0	38.9	50.0
Rite Aid (Shiremanstown, Pa.)	11.4	28.6	16.7	27.8
Sav-on (American Drug Stores, Anaheim, Calif.)	70.0	20.0	40.0	20.0

Source: Drug Store News/SPAR Marketing Services

Drug chains' strategies for merchandising key men's fragrances

Brand	% of stores carrying brands for Christmas '88	% chng 88 vs. 87	% of stores giving promotional display space at Christmas '88 (Among stores carrying brands)	% chng of stores giving promo display space at Xmas '88 vs. '87 (Among stores carrying brands)
Stetson	93.6%	1%	74%	16%
English Leather	86.0	8	63	21
Old Spice cologne	85.2	8	62	22
Chaps original	92.3	(2)	58	18
Jovan Musk	88.8	46	58	14
*Hero	75.5	n.a.	58	n.a.
Iron	88.3	44	54	38
Santa Fe	72.2	n.a.	48	n.a.
Pierre Cardin	83.7	1	45	2
*McGregor	68.1	n.a.	39	n.a.
Night Spice	74.7	42	37	28
*Mexacali Musk For Men	48.0	n.a.	36	n.a.
Chaps Musk	74.5	(11)	34	(8)
Dallas	45.7	35	20	(17)

*New in 1988

Source: Drug Store News/SPAR Marketing Services

Trends in the merchandising of men's fragrances under glass

Brands	% of stores merchandising under glass 1987	1988	% chng
Dallas	20.7%	28.4%	37%
Iron	23.1	29.5	28
Stetson	26.3	32.8	25
Night Spice	19.7	24.5	24
Chaps Original	27.9	34.6	24
English Leather	15.0	18.3	22
Pierre Cardin	40.1	47.2	18
Chaps Musk	26.9	29.3	9
Jovan Musk	27.2	29.7	9
Old Spice	10.4	8.5	(18)
Hero	n.a.	26.1	n.a.
All men's fragrances	45.6	49.0	7

Source: Drug Store News/SPAR Marketing Services

BEAUTY TRENDS | **SPAR/*Drug Store News* fragrance audit**

Our exclusive audit of how 392 chain drug stores displayed fragrances at Christmas shows a definite trend towards putting more product under glass. The only way to grow sales in such an environment, buyers say, is to provide service.

Drug chains' strategies for merchandising key women's fragrances

Brand	% of stores carrying brands for Christmas '88	% chng '88 vs. '87	% of stores giving promotional display space at Christmas '88 (Among stores carrying brands)	% chng of stores giving promo display space at Christmas '88 vs. '87 (Among stores carrying brands)
Charlie	97.2%	(2%)	73.0%	9%
Primo	88.5	1	68.6	15
Emeraude	93.4	n.a.	68.1	n.a.
Lady Stetson	93.4	2	67.9	15
Chantilly	89.8	1	67.6	11
Forever Krystle	93.4	6	66.3	16
Jontue	95.2	(1)	65.8	16
Le Jardin de Max Factor	89.3	5	63.5	16
Vanderbilt	91.8	(2)	63.0	9
Windsong	89.5	n.a.	62.8	n.a.
Xia Xiang	73.5	72	54.3	135
Aviance	78.1	8	46.7	24
*Ex Cla Ma Tion!	56.4	n.a.	38.8	n.a.
*Trouble	60.2	n.a.	37.5	n.a.
Coty Musk	69.6	n.a.	36.5	n.a.
*Illegale	54.8	n.a.	36.2	n.a.
Glorious EAUDET	63.5	33	29.3	32
*Almay Fragrance	59.4	n.a	28.8	n.a.

*New in 1988

Source: Drug Store News/SPAR Marketing Services

Everyday fragrances could use more promotional space

A good correlation doesn't exist between the fragrances many drug stores carried every day and those they gave promotional display space to at Christmas, said retailers and fragrance manufacturers who looked over the SPAR findings.

Brands like Charlie, Lady Stetson and Vanderbilt are category leaders, and almost all chain drug stores had them in their regular everyday fragrance departments. At Christmas, however, fewer than seven in 10 stores in the survey gave these dominant brands extra display space.

"Why would someone carry a brand all year 'round and then not cash in on that brand's iamge at Christmas?" one source said.

The picture was even worse for new brands launched in the latter part of 1988.

Nearly 60 percent of all stores had Coty's Ex Cla Ma Tion!, the best new product launch in women's mass fragrances last year, according to most buyers, but only four out of every ten stores that had that brand displayed it off-shelf.

"It doesn't make sense," one retailer told us. "New brands especially need to be visible so they can sell. And why not display it so you can take advantage of all the advertising that is going on to support the launch?"

Gift sets may get too much space

Some buyers were also worried about the amount of space devoted to gift sets in their stores, because they are often bulky and can take up as much space as four basic stock items. For a gift set to be productive, it has to turn very fast to justify its space.

As can be seen from efficiency charts, which correlate dollar sales share to space allocation share, some of the brands that had more gift sets out at Christmas than basic stock, such as Chantilly, did not do as well as the lines that concentrated on basic stock or limited items.

Ex Cla Ma Tion!, in fact, was the most efficient brand measured in this survey, with its dollar sales share to space share 61 percent above the index average of 100.

Buyers concluded that based on their performance, brands like Ex Cla Ma Tion!, Charlie and Vanderbilt, which also ranked very high in efficiency correlation, deserve more space at Christmas because they generated more dollars than the competition in less space.

However, dollar sales is not the only criterion buyers use when buying fragrances. Dating time (between invoicing and payment due date) is important, as is the opportunity to buy on consignment.

There are also certain trade-offs that have to be made. A gift set may be bulky and take up more space than it generates in dollar sales, but if there is a strong market for a specific brand's gift sets, then the buyer has to be able to satisfy that demand.

Also, trial size packages and lower priced brands will always have a harder time justifying the space they are given by a dollar sales measurement alone. Because of their lower price points, these items always do better in unit turns and they usually have an efficient correlation of unit share to space share.

The consensus among sources was that if buyers are looking for more dollar growth in fragrances and if this is their highest priority, then, all other things being equal, it makes sense to give the highest portion of display space to brands and sizes that sell at higher price points.

Dominant and growth brands need more space

It also makes sense to increase space allocations for brands that sold well in prior years, such as Xia Xiang, which was the best mass women's launch in 1987.

However, with a few exceptions, allocations weren't up significantly for other major women's brands that sold well in prior years. Vanderbilt and Charlie were both down 4 percent from their 1987 Christmas display allocations, and Lady Stetson was up just 16 percent.

Buyers said this was probably because their space was taken up by the new launches that came out in 1988.

Leading men's brands, on the other hand, were treated much better than women's brands.

Category leaders Stetson, Chaps and Old Spice were up 26 percent, 17 percent and 31 percent respectively, over the display space in the previous year. Last year's newcomer, Night Spice, was up 52 percent over the space allocations given it in Christmas '87.

Buyers speculated that in men's fragrances, it is easier to give dominant leaders the space warranted by sales because men are more brand loyal than women.

Most of the major women's brands also lost share space, but this did not happen with men's brands.

Greater fragmentation

One buyer said it shows how much more fragmented the women's category is compared to men, and how much more confident buyers feel that men's brands can preserve their dominance.

This buyer also concluded it would make more sense to preserve the space for the stronger brands in women's so they could retain the shelf impact they need to continue to sell well.

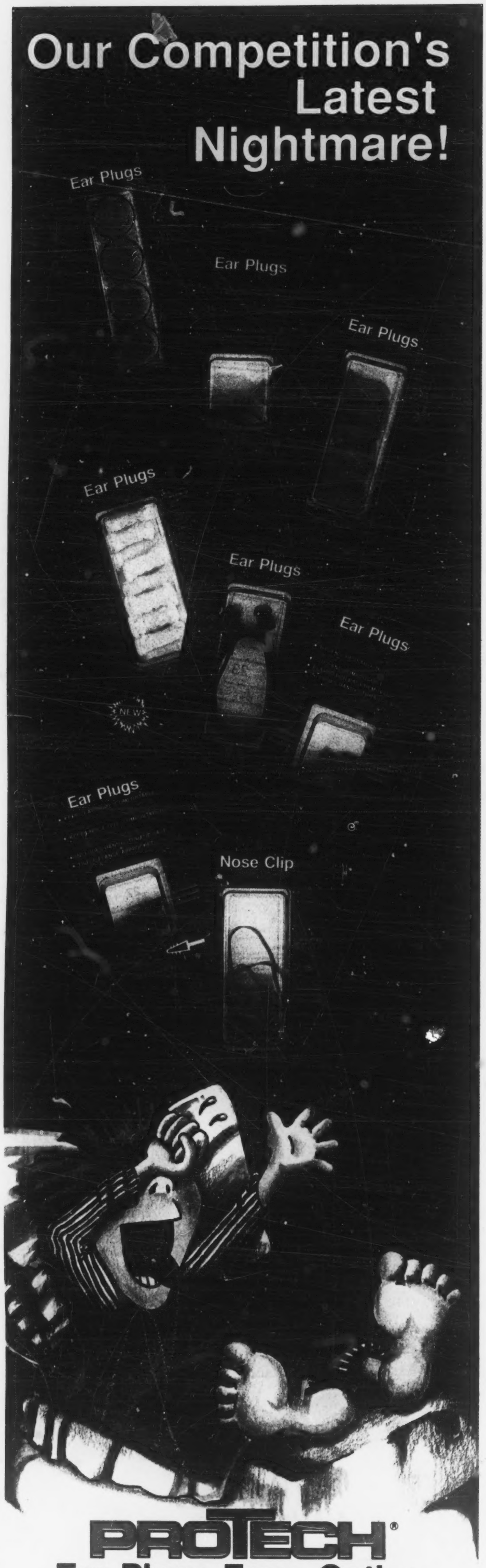
He said that because stores do have to cut back somewhere to make room for the promising newcomers, that they should try to cut back on the weaker brands so they would have a chance to minimize the risk of lost sales for strong traditional brands.

Trends in the merchandising of women's fragrances under glass

Brands	% of stores merchandising under glass		
	1987	1988	% chng
Xia Xiang	39.9%	52.9%	36%
Aviance	38.3	48.2	26
Deborah/Scentsational	25.9	31.1	20
Forever Krystle	46.7	54.7	17
Vanderbilt	58.4	66.9	15
Lady Stetson	40.2	44.5	11
Glorious EAUDET	59.2	65.4	10
Charlie	42.2	46.0	9
Chantilly	42.1	45.6	7
Le Jardin de Max Factor	44.1	46.5	3
Primo	37.0	38.1	3
Trouble	n.a.	38.4	n.a.
Emeraude	n.a.	43.3	n.a.
Windsong	n.a.	41.5	n.a.
Ex Cla Ma Tion!	n.a.	34.7	n.a.
Jontue	43.0	46.5	n.a.
Illegale	n.a.	30.2	n.a.
Almay	n.a.	36.4	n.a.
All women's fragrances	62.7	68.6	9

Source: Drug Store News/SPAR Marketing Services

Our Competition's Latest Nightmare!



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Ranked comparison of how select chain drug stores merchandised fragrances at Christmas

Chain (HQ)	Average size of everyday fragrance department (Pre-Christmas linear ft.)	Average amount of additional promotional display space given to fragrances at Christmas '88 (linear ft.)	Total '88 Xmas Display Space (linear ft.)	% increase over pre-Christmas display
Pay Less NW (K mart, Wilsonville, Ore.)	107.8 ft.	141.2 ft.	249.0 ft.	131%
Longs Drug, (Walnut Creek, Calif.)	130.8	92.0	222.8	70
Thrifty Drug (Los Angeles)	117.9	103.2	222.4	88
Walgreens (Chicago)	103.2	117.0	220.2	110
Sav-on (American Drug Stores, Anaheim, Calif.)	54.5	76.3	207.2	139
Eckerd Drug (Clearwater, Fla.)	77.6	121.6	199.2	156
Average for all chain drug stores	98.9	92.4	191.3	90
CVS (Woonsocket, R.I.)	84.4	80.5	164.9	95
Revco (Twinsburg, Ohio)	47.3	70.4	117.7	148
Rite Aid (Shiremanstown, Pa.)	30.2	38.6	68.81	123

Source: Drug Store News/SPAR Marketing Services

Christmas fragrance displays show variations in presentation and size

The average chain drug store gave fragrances approximately 191 linear feet for display last Christmas.

As expected, larger chains, such as Pay Less NW and Longs on the West Coast, gave it the most space, while smaller bantam chains like Rite Aid had to be content with a relatively compact average of 69 linear feet.

CVS, however, a bantam chain with a superior cosmetics presentation, gave the category 165 linear feet, an allocation buyers considered appropriate for "making as forceful a statement about cosmetics as is possible in such a small store."

Walgreen and Eckerd, two of the best cosmetic merchandisers among the big chains, gave the department an average of 220 and 199 linear feet, respectively.

Walgreen and Eckerd, two of the best cosmetic merchandisers among the big chains, gave the department an average of 220 and 199 linear feet, respectively.

Almost every Walgreen store used either islands or freestanding displays to call attention to featured brands in women's fragrances. About 95 percent of Walgreen stores also had at least some fragrances under glass, but in Walgreen's case, the potential for lost sales was minimized because the chain has a strong service program.

CVS, which has more of a self-service program for cosmetics, managed to control the number of stores that had fragrances locked up behind glass. Only 13 percent of all the CVS stores in our survey had some women's fragrances under glass, and these were generally the more expensive brands like Vanderbilt and Glorious.

Like Walgreen, most CVS stores used islands or freestanding displays to highlight fragrances, and only a handful of stores gave up counter space to this category. The space was too tight to be used effectively in merchandising fragrances, sources said.

Because of their small size, most CVS stores were forced to support the strongest brands with expanded allocations for in-line shelf space.

On the West Coast, Longs, which also has a strong service program with its cosmeticans, also had more stores merchandising fragrances under glass. However, they also made good use of islands, and more than two-thirds of their stores avoided expanding in-line shelf space for women's brands.

Fragrances got more space in chains last Christmas

The Spar audit of 392 chain drug stores shows that space allocations for fragrances last Christmas were up 19 percent versus a year ago.

Some cosmetics merchants who reviewed our findings for us said they were surprised at the increase, because most chain drug stores this year tried to cut inventories; also, data from market research companies shows that inventories were down about 3 percent.

One cosmetics vp thinks chains may have bought less because they were trying to break what he called the "sellthrough barrier."

"It seems that every year we achieve the same sell throughs between 65 percent to 70 percent and this happens whether we buy $3 million in fragrances or $5 million.

"This year, everyone was talking about watching investment dollars so there was an effort to keep inventories low, but at the same time, we all want to make a statement in cosmetics and Christmas is the time of year to do that with fragrances. There were also a lot of new launches this year and we all thought that was going to be good for the category. So I think that despite all the talk about cutting inventories, we wound up trying to make a strong statement."

SPAR/*Drug Store News* fragrance audit **BEAUTY TRENDS**

Men's fragrances efficiency index: $ sales by footage

(Share of dollar sales correlated to share of total display space)

	Index	Average linear ft. of display space
Chaps Original	122.8	4.1
Jovan Musk	116.8	3.9
Old Spice	111.4	7.7
English Leather	110.7	4.9
Dallas	100.0	2.1
Pierre Cardin	93.5	3.7
Stetson	92.0	6.8
Iron	90.8	2.9
Night Spice	88.6	2.3
Chaps Musk	75.6	2.7
Hero	72.2	3.3
Santa Fe	69.0	2.5
McGregor	65.5	2.3
Mexacali	47.5	2.5

Note: This space to sales ratio was determined by dividing dollar brand share for the November/December period in drugstores by SPAR's measurements of share of total space allocations for the brands mentioned.

Source: Drug Store News/SPAR Marketing Services

Women's fragrances efficiency index: $ sales by footage

(Share of dollar sales correlated to share of total display space)

	Index	Average linear ft. of display space
Ex Cla Ma Tion!	161.3	3.0
Charlie	148.1	4.6
Vanderbilt	130.2	5.8
Forever Krystle	129.9	3.8
Jontue	129.1	3.9
Trouble	112.3	3.1
Lady Stetson	110.4	4.0
Glorious EAUDET	103.6	3.7
Xia Xiang	100.0	4.1
Primo	81.4	4.8
Emeraude	72.5	4.5
Chantilly	63.9	6.1

Note: This space to sales ratio was determined by dividing dollar brand share for the November/December period in drugstores by SPAR's measurements of share of total space allocations for the brands mentioned.

Source: Drug Store News/SPAR Marketing Services

Men's brands given the most share of shelf space at Christmas

(Share of total Christmas display space for select brands Christmas '88 vs. Christmas '87)

Brands	% share total shelf space Xmas '87	% share total shelf space Xmas '88	% change Xmas '88 vs. '87
Stetson	7.8%	8.2%	5%
Old Spice	6.9	7.5	9
English Leather	4.9	5.0	2
Chaps Original	4.4	4.3	(2)
Jovan Musk	4.8	4.0	(17)
Pierre Cardin	n.a.	3.5	n.a.
Hero	n.a.	2.9	n.a.
Iron	2.2	2.9	32
Chaps Musk	2.6	2.0	(23)
Santa Fe	n.a.	1.9	n.a.
Night Spice	1.3	1.7	31
McGregor	n.a.	1.5	n.a
Mexacali	n.a.	1.3	n.a.
Dallas	1.0	0.9	(10)

Source: Drug Store News/SPAR Marketing Services

Space-to-sales efficiency index is examined for fragrances

For the space they were given in drug stores at Christmas, Coty's Ex Cla Ma Tion! was the most productive brand in women's fragrances and the original Chaps scent was the most productive in men's.

This productivity measurement is based on the ratio between share of shelf in the stores surveyed and share of dollar sales for the November-December Christmas period. A ratio of 100 indicates that a brand's dollar sales were equal to the space it was given in the stores. A correlation higher than 100 indicates that the brand outperformed the category in dollar productivity, generating more dollars in its allotted space than was average.

Ex Cla Ma Tion! had an index of 161 percent while Chaps Original had an index of 123 percent.

The sources who helped review the survey findings concluded that buyers should look carefully at the brands that had an index of less than 100. The correlation shows that something happened that made these brands less efficient in generating dollars equal to the space they occupied.

This doesn't necessarily mean that the brand itself wasn't strong. It can mean that the brand sold a lot of product in a small package which means a smaller dollar sale, or that the brand was displayed in such a bulky package that it took up more space than could be justified by a dollar sales measurement alone.

Impact of big displays

One source said buyers have to understand the implications of putting up large displays for bulky gift sets, trial sizes, or any lower price point item.

"Yes, it makes sense to display these things because people do buy them," he said, "but if our goal as retailers is to build dollar sales, these types of products won't be able to contribute as much as a more expensive brand that has a good market share and a loyal following."

Our sources also agreed that there are so many things to consider when buying a Christmas fragrance—including dating terms, competition and return options—that buyers have to do "the best they can in juggling all their options."

One source said he was asking his financial and operations people to evaluate how much inventory and what kind of inventory he should carry at Christmas, and whether it would be more efficient to streamline his inventory, which would make him more selective about what he stocks and what he displays, or whether he should buy "as much as I can of what's available so I can make the strongest presentation possible."

He seemed to feel that the best approach might be to balance a merchant's flair for presentation with the tightly scrutinized selection procedures that operations and financial people usually apply to decisions.

The merchants who helped *Drug Store News* explore implications of the SPAR chainwide fragrance display audit concluded that endcaps were definitely not the best way to display upscale brands like Tatiana or Charlie. Endcaps are best for commodity items like shampoos or after-shave lotions. The higher ticket fragrance brands deserve an island or freestanding display that help create an upscale, boutique image for the entire cosmetics-fragrance department.

Women's brands given the most share of shelf space at Christmas

(Share of total Christmas display space for select brands Christmas '88 vs. Christmas '87)

Brands	% share total shelf space Xmas '87	% share total shelf space Xmas '88	% change Xmas '88 vs. '87
Chantilly	4.1%	3.8%	(7%)
Vanderbilt	4.4	3.5	(20)
Charlie	3.8	3.1	(18)
Le Jardin de Max Factor	3.5	3.0	(14)
Primo	2.9	2.8	(3)
Emeraude	n.a.	2.8	n.a.
Lady Stetson	2.5	2.4	(4)
Jontue	3.0	2.4	(20)
Forever Krystle	2.9	2.4	(17)
Windsong	n.a.	2.1	n.a.
Xia Xiang	0.9	2.0	122
Aviance	1.5	1.4	(7)
Glorious EAUDET	1.0	1.3	30
Trouble	n.a.	1.1	n.a.
Ex Cla Ma Tion!	n.a.	1.0	n.a.
Illegale	n.a.	0.8	n.a.
Almay	n.a.	0.8	n.a.
Deborah/ Scentsational Scents	0.3	0.4	33

Source: Drug Store News/SPAR Marketing Services

BEAUTY TRENDS | **SPAR/*Drug Store News* fragrance audit**

Location key factor to capturing incremental fragrance sales

Where a drug store locates a fragrance display can make the difference in whether or not that store captures incremental impulse sales.

Fragrance buyers tell *Drug Store News* that their most preferred location for a fragrance display, especially at Christmas, is on an island or in a freestanding display.

Endcaps and fragrances put under glass are the least desired vehicles for merchandising fragrances, but unfortunately, most chain drug stores still relied heavily on these vehicles to display fragrances last Christmas.

Display strategies for women's fragrances

(Christmas '87 vs. Christmas '88)

Displays	% of stores using these types of displays 1987	1988
Endcaps	44.0%	45.7%
Counters	34.3	36.8
Island or freestanding	59.7	61.9
Expanded shelf space	41.4	51.9

Source: Drug Store News/SPAR Marketing Services

Display strategies for men's fragrances

(Christmas '87 vs. Christmas '88)

Displays	% of stores using these types of displays 1987	1988
Endcaps	47.3%	46.0%
Counters	22.9	31.8
Island or freestanding	52.7	52.9
Expanded shelf space	42.3	50.4

Source: Drug Store News/SPAR Marketing Services

The Spar audit showed that 62 percent of stores in the survey used island or freestanding displays to merchandise women's fragrances at Christmas, and 37 percent used islands.

Unfortunately, 46 percent of all stores used ends for women's fragrances, which one buyer said is "the worst way to try to create an image for that department," and 52 percent were forced "because of overcrowding and tight space" to use expanded shelf facings for display.

Buyers said that if chains have to resort to expanded facings at Christmas because of overcrowding and lack of space, the best strategy was to give the increased facings to the brands with the highest shares of market or the most aggressive advertising support.

"That way," said one source, "you can build the visibility of the brand by giving it more impact on the shelf, and you can also make a statement about your everyday basic business. These are also the brands that will help you create an upscale image for your department."

Under glass

One of the most disturbing trends was the high proportion of stores that displayed fragrances under glass, even low cost brands like Primo and Deborah's ScentSational Scents.

Seven out of ten stores in the survey put at least some women's scents under glass, and one-third of the stores also had the low cost brands under glass. 49 percent of the stores also had some men's under glass.

As long as an end wasn't used for an upscale men's brand like Stetson or Chaps, chain merchants thought ends were an acceptable way of merchandising men's scents.

POP support is weak

Sources also thought there was one other major merchandising flaw evident in the survey. About half the stores audited failed to use point of purchase aids to support their fragrance displays.

The retailers concluded that header cards and other aids were probably discarded at store level by managers trying to get as much product as possible out on the floor in a crowded environment, but they also said it was much harder to get impulse sales without the POP aids that help tell the brand's story.

This is especially true for new brands that depend upon pictures and header cards to attract attention.

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BEAUTY TRENDS | **SPAR/*Drug Store News* fragrance audit**

Let fragrance sales break out of their glass prison

BEAUTY BEAT
ELIZABETH PARKS

For nearly half a decade, fragrance sales have been flat in chain drug stores and buyers are once again asking what can be done about the situation.

Most agree that they want manufacturers to encourage increased consumption, creating ads that encourage more women to use fragrances more often.

But buyers are also aware that their own merchandising programs can contribute to the problem, and most concede their chains could be doing more to merchandise fragrances more creatively.

One of the chains' biggest problems is service related. As service has declined in the cosmetics department, shrink and pilferage have increased.

Most chains are responding to this problem by putting more and more fragrances under glass. But that creates a whole new set of problems.

Under glass, fragrances are not as accessible to consumers. To generate a sale, then a sales clerk has to be available.

But today's sales clerks have so many other responsibilities, like manning registers, stocking and reordering product, that they are diverted from the customer.

So a vicious cycle ensues. Less service, less sales. Less service, more pilferage. More pilferage, more glass. More glass, less sales.

Today, buyers have become so used to this cycle that some tell us they don't think it will ever change. "We just don't have the volume in that department to justify a full-time sales clerk," said one source, "and, without clerks, it may take us years before we ever do get the volume up. So we're trapped."

However, there are a few chains that have found a way to address the money issue and in the process, they have broken the cycle. Walgreens and Longs, for example, both have strong service cosmetic programs and both are consistently regarded as superior merchants in this category.

There are other chains that are attacking the problem by reinvesting in service, and even though it may take them several years to achieve their objective, they are at least moving in a positive direction. Peoples and Perry Drug are in this category.

So there is hope. But it comes from action, from what one source called "biting the bullet" and investing in strong cosmetic programs even though it may take several years for a chain to be able to afford to do everything that is needed.

In the meantime, sources say that retailers just have to become more selective or more "scientific" about how they can maximize their current investment in fragrances.

And to that end, buyers should become more aggressive in telling manufacturers what they want, or as one source put it, in "prioritizing" what it is you think your stores need to get sales up.

Most of our sources also felt that buyers needed more analytical tools to help them make the best merchandising decisions.

One source said that a tool like our fragrance efficiency chart, which is based on measuring the ratio between share of space allocations for select brands and dollar sales share for select brands, gives buyers clues as to the impact of their merchandising decisions on dollar sales.

"The efficiency correlation," said one source, "at least lets buyers see if their space allocations helped them achieve an increase in dollar sales if that was their objective."

"If sales for your basic stock are growing faster than sales for your gift sets," he said, "then what's the sense in giving so much space to gift sets? But to know these things, we have to have ways to measure the consequences of a merchandising decision."

And that's really the reason why *Drug Store News* sponsored the SPAR fragrance audit. The information gleaned from SPAR's audit of 392 chain drug stores gives readers a foundation for measuring the consequences of Christmas merchandising decisions.

If sales were flat, then there should be something in this study that will help readers understand why, and from that understanding, perhaps create a program that will make next year's sales much stronger.

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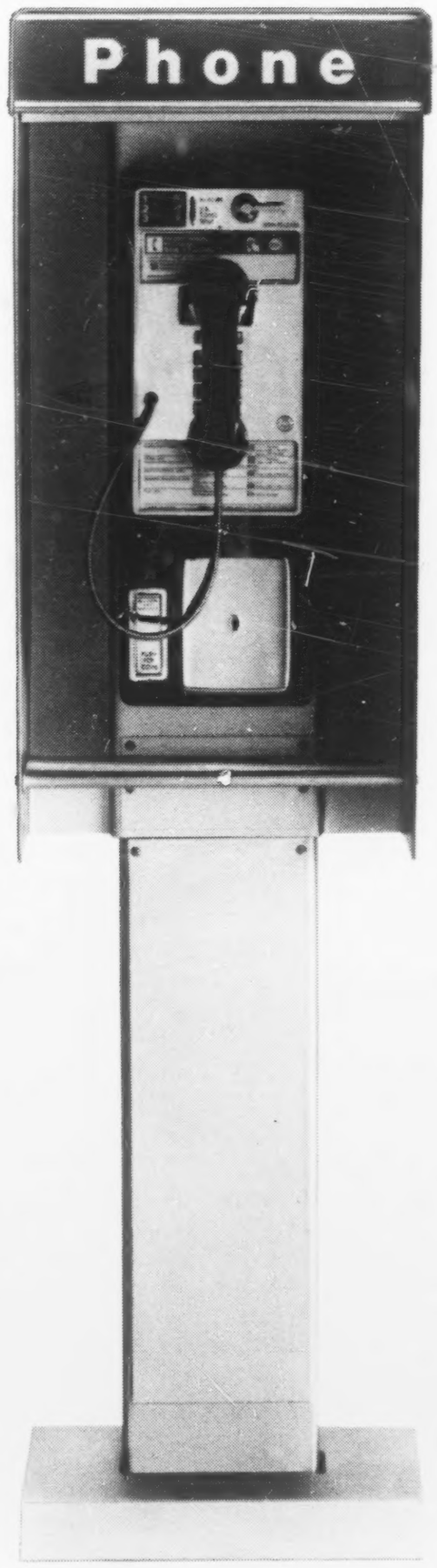

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Cigarettes and tobacco products **TRENDS**

Cigarettes generate big dollars despite falloff in units

Prices increased to boost cash flows

Continuing health concerns and negative publicity have kept cigarette sales in a downward spiral in the 1980s, but retailers are still reaping big cash flows from tobacco as manufacturers raise prices to compensate for declining unit sales.

Cigarette unit sales dropped 2.1 percent in 1988, to 558 billion units, according to tobacco industry analyst John Maxwell, Jr. of Wheat First Securities. That decline was "virtually identical to the losses experienced in 1987 and 1986," Maxwell noted.

Nonetheless, increasing prices for premium brands and growing excise taxes keep the dollars rolling in. Said an executive with Duane Reade in New York City: "In spite of all the negative publicity, our volume has not dropped. In dollars, I think cigarette volume has actually gone up a bit in our stores.

"This category still generates a lot of dollars," he said.

"I don't think the price hikes in themselves have affected sales much," added Rick Burns, tobacco buyer for Snyder Drug Stores in Minneapolis. "What's hurt the unit volume is the continued hammering away at smokers with the stop smoking messages."

Still, cigarettes continue to generate rapid turns, increase store traffic and positive cash flows, making it easier for chain drug executives to overlook the negative publicity and the relatively low gross margins generated by the category. On a DPP (direct product profitability) basis, cigarettes perform well.

"We don't wave the flag on cigarettes, but we're not reducing our inventories, either," said Burns, echoing the sentiments of many chain merchandisers. "It's still something we want to maintain for our customers, so we continue to stock more than 100 brands."

"We're cutting down on some of the lesser brands, and pulling back a little. . . we look at it as a convenience type of item, and we're staying with it," the Duane Reade executive added.

He says cigarette margins in his stores are less than 10 percent, despite a New York state law against price-cutting below a floor level for cigarettes. Other chains have reported margins as high as 15 percent or more, depending on competition and excise tax levels.

In comparison, at Snyder's, "when we buy by the carton, but sell as single packs, we make up some in margins," Burns added.

In addition to rising costs and negative publicity, retailers are also coping with shrink in the category. Many chains have switched to harder-to-pilfer displays for cartons and

(Continued on page 34)

The top ten cigarette brands: Marlboro man corrals more market share

Brand/Manufacturer	1987 Volume*	1987 Share	1988 Volume*	1988 Share	% Change
Marlboro/ Philip Morris	134.57	23.6%	138.82	24.9%	+3.2
Winston/RJR Nabisco	63.28	11.1	60.01	10.7	−5.2
Salem/RJR Nabisco	43.80	7.7	40.53	7.3	−7.5
Kool/Brown & Williamson	34.33	6.0	33.58	6.0	−2.2
Benson & Hedges/ Philip Morris	24.36	4.3	22.15	4.0	−9.1
Newport/Lorillard	24.23	4.2	24.80	4.4	+2.4
Camel/RJR Nabisco	24.18	4.2	24.20	4.3	+0.1
Merit/Philip Morris	22.17	3.9	21.38	3.8	−3.6
Virginia Slims/ Philip Morris	17.51	3.1	16.85	3.0	−3.8
Doral/RJR Nabisco	17.22	3.0	18.70	3.4	+8.6

*In billions of cigarettes sold

Source: John Maxwell, Jr., analyst, Wheat First Securities, Richmond, Va.

'I don't think the price hikes in themselves have affected sales much. What's hurt the unit volume is. . . the stop smoking messages. . . we continue to stock more than 100 brands.'

—Rick Burns, tobacco buyer for Snyder Drug Stores

Increased prices and growing excise taxes have kept tobacco dollars rolling in for retailers.

Disposable lighters yielding high margins on fast turns

Moving in tandem with the cigarette market, retail sales of disposable lighters have been frozen at about $480 million a year, according to industry estimates. They may now be in a slight decline as the demand for cigarettes slides by roughly 2.1 percent a year.

However, if the market should stabilize at 50 million smokers, "we could have a predictable market for disposable lighters," said one executive at General Cigar, maker of Djeep. Moreover, a major opportunity exists in converting half the nation's smokers from matches to lighters, he added.

A product manager for Wilkinson Sword concurred that the disposable market has crested, at least for now. "What you're seeing is a reflection of the cigarette market, where sales have stabilized or are dropping off," she said.

Retailers agree. The disposable category "is not what it used to be," noted one chain drug merchandiser, who said his stores carry as little as one lighter brand now, merchandised at the checkstand.

"We only carry the top three brands now, with about three SKUs for each," added Rick Burns, tobacco and sundries buyer for Snyder Drug Stores. "We've also cut back on promotions, but we haven't eliminated them entirely."

The news certainly isn't all bad, however. Disposable lighters remain a high-impulse, high-profit item which does well at the front end and takes up only a little space. Gross margins for the category are pegged as high as 50 percent.

"They've dropped off some, but they're still a fast-turn impulse item," said an executive with Duane Reade in New York City. "And we don't have to worry about cutting

Continued on page 33

Tobacco to be target of new rules, taxation

Spurred by calls for more restrictive rules concerning tobacco advertising and use, and by its own need to raise revenues, Congress is again leveling its sights on the tobacco industry. At some point, retailers may find themselves squarely in the middle of the legislative battleground.

The tobacco industry is currently fighting three major battles, according to Brennan Dawson of The Tobacco Institute, which lobbies for industry causes. Those battles concern a new round of proposals to raise the "sin" tax on cigarettes; a host of new smoking restrictions proposed by many states and cities; and renewed efforts to ban all forms of tobacco advertising, including in-store

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Despite health risks, bad publicity cigarette sales generating big dollars

Continued from page 31

packs, and most sell packs behind the counter.

"We have security fixtures now in our stores," noted a source at Fay's Drug.

"We went to overhead racks (for security), and they've worked out fine as far as offering consumer selection, convenience and visibility," said Frank Gable, director of sales for Harco Drug. "In the small amount of space we have, the only other option was slide trays for packs, which limited space and selection."

Gable said the overhead racks, located at the checkout counter, have probably increased sales slightly.

Battling for market share

For their part, manufacturers have responded to the fall-off in demand in other ways besides price hikes. The big suppliers are locked in a pitched battle for market share, as Philip Morris' Marlboro continues to dominate the market. Marlboro now accounts for one of every four cigarette purchases, while most other major brands have suffered continuing declines.

To counter those declines, manufacturers have turned to niche marketing and product segmentation. That effort has generated success in one big area: the price/value segment of the market, which continues to grow steadily. Price/value-oriented brands now command 11 percent of total sales, led by R.J. Reynold's Doral and fast-growing, low-price brands like Cambridge.

The success of the low-price end of the market led recently to the restaging of some old but flagging brands. Among them: Brown & Williamson's Viceroy and Philip Morris' Alpine, both of which have been converted to low-price brands.

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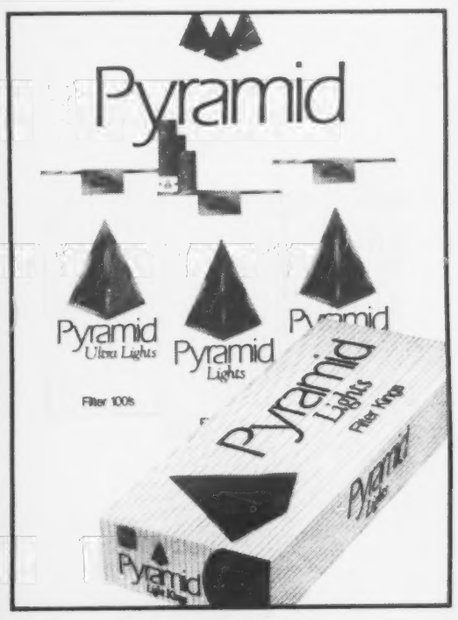
For details contact your General Cigar Co., Inc. Sales Rep.

PRODUCT UPDATE

Upscale lighter for home entertaining

Scripto, a manufacturer of disposable lighters, has developed an upscale lighter accessory for home entertaining. Decolite features a graceful shape in a slim line package and is designed for comfortable, easy handling. Available in ice blue, mauve, aqua and sandstone, highlighted by a European-style black barrel, Decolite complements virtually any decor. SRP is $9.99.

Scripto. P.O. Box 3200, Rancho Cucamonga, Calif. 91730.



Cigarette brand has new low price

Pyramid is the new, low-priced cigarette brand being marketed by the Liggett Group, Inc. "As the price spread between generics and full-priced cigarettes narrows, smokers are switching to branded generics which are priced competitively with generics and also heavily couponed. We can't outspend the other manufacturers, so we are trying to out-innovate them," said the company's senior vp, Hal A. Grant.

Liggett & Meyers Tobacco Co., Division of Liggett Group, Inc., 300 North Duke St., Durham, N.C. 27702.